

AGRIBUSINESS REENGINEERING PROJECT

(ES-0119)

EXECUTIVE SUMMARY

Borrower:	Republic of El Salvador	
Executing agency:	Ministry of Agriculture (MAG)	
Amount and source:	IDB (Ordinary Capital):	US\$ 25,000,000
	Local:	<u>US\$ 6,250,000</u>
	Total:	US\$ 31,250,000
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars from the Single Currency Facility of the Ordinary Capital
Objectives:	<p>The objective of the project is to promote higher incomes from agricultural and forestry activities by developing greater efficiency and higher value added. This basic objective will be pursued by strengthening the supply of key public goods and services, fostering strategic alliances between the public and private sectors, and rebuilding irrigation and drainage infrastructure adversely affected by the earthquakes in early 2001.</p>	
Description:	<p>The project has three components: (i) support services for agricultural and forestry production, including the following subcomponents: (a) information system, and (b) phytosanitary protection and food safety; (ii) rehabilitation, reconstruction and transfer of irrigation and drainage systems and crop diversification; and (iii) system of alliances for agricultural and forestry technology.</p>	
Conceptualization of the project:	<p>The conceptualization of the project is based on recognizing the agricultural sector's potential to contribute to economic growth. This potential is ascribable to the availability of natural resources and labor that may be used to improve and diversify agricultural production in the country, transforming it into higher yielding and more competitive crops. To be harnessed, this potential must go in hand with timely distribution of quality information, a modern system of plant health protection and food safety, national capacity</p>	

to generate and disseminate new technology for production of crops and livestock raising using the best technology available, and improvements in the sector's infrastructure works themselves, particularly irrigation and drainage. The project is designed to provide these support services as a means of bringing about the technical modernization of the sector and expanding production potential through the restructuring of agribusiness. This concept of restructuring is understood by Salvadoran producers, potential beneficiaries of the project, who at different stages of project preparation indicated the need to have access to technology and production support services that enables them to modernize.

**The Bank's
country and
sector strategy:**

The objectives of the Bank's country strategy—as contained in the country paper of 13 December 2000 (GN-2121-1)—that refer specifically to the rural economy and that will be supported by this project are: to diversify agricultural production; to improve access to financing; to enhance the productivity and competitiveness of the agricultural sector; to promote producers' associations and job creation; and to invest in technology, basic infrastructure and sustainable management of natural resources.

In an effort to promote policy dialogue and highlight promising opportunities in the rural economy, the Bank last year conducted an in-depth analysis of the growing disparity between El Salvador's rural and urban sectors. This effort produced a multisector study that identified institutional, legal and physical obstacles facing development of the rural economy, and proposed policy and investment options for developing its potential.¹ The Bank and the Government of El Salvador reached a consensus on the priorities proposed in the report, and agreed to strengthen support for infrastructure, human resources and the institutional and economic policy frameworks in ways that would stimulate broader economic opportunities for rural people. In terms of the agricultural sector, this consensus focused on the need to accelerate the process of agricultural transformation towards more diversified output and higher value added, throughout the agricultural chain.

Other Bank projects in support of the rural economy of El Salvador include: the Multiphase Sustainable Rural Roads Program (ES-0129) approved in April 2001, and the Local Development and Local Infrastructure Project (ES-0120) currently in preparation.

**Environmental
and social review:**

The project will have a positive social impact that will be felt in an increase in economic and social well-being, and in the health of producers and consumers. Special attention will be given to training women in crop management, irrigation and marketing. This last area

¹ “Unlocking the Economic Potential of the Rural Sector in El Salvador”. Report of the IDB/RE2 Study Group, May 2000

has been a traditional sphere for women in Salvadoran rural society. The intention is to improve the well-being of women in rural society and enhance their opportunities for income.

A complete Environmental and Social Management Plan (PMAS) has been prepared, as part of the project's Operating Regulations. This PMAS includes prevention and mitigation measures consistent with the country's environmental legislation, in particular as it relates to rehabilitation projects for irrigation and drainage systems, where the existing domestic legal framework permits adequate management of natural resources. The PMAS contains activities to avoid unsound soil management practices and to promote the proper use of agrochemicals, prevention and mitigation measures for reconstruction and rehabilitation work, sound management of water resources, good productive practices with irrigated crops, and measures to reduce the disparity in participation by women and minority groups. An environmental monitoring program has also been designed, to be supervised by a full-time environmental officer attached to the Ministry of Agriculture Project Coordinating Office. The costs of the PMAS are included in the project budget (see paragraph 3.16).

Benefits:

By producing basic information on climate, output, prices, farming practices, productive processes and agricultural investment opportunities and alternative uses of woodlands and forestry products, the project will contribute externalities in support of production, encourage competition and make markets operate more transparently. Strengthening the phytosanitary protection and food safety system will help to improve the sanitary quality of the country's agricultural output. As well, food safety will be improved through the adoption of good practices for processing raw materials in the food industry.

The benefits of the component for managing irrigation and drainage systems and crop diversification, in terms of increasing the value of agricultural output, will result from expansion of the area under irrigation, land improvement through leveling, more intensive use of land and diversification into highly profitable crops, reduction in the exploitation of marginal, higher-altitude lands and the development of sustainable agriculture. The transfer of irrigation system management to local associations will improve administration of irrigation and drainage systems and will encourage private investment, thereby achieving a better allocation of the economy's resources.

The principal beneficiaries of the efforts to generate and transfer technology will be small and medium-sized producers with productive potential.

Risks:

The principal risk associated with the information system lies in the capacity of the Ministry of Agriculture to maintain these services on a sustainable footing, once the project is completed. To mitigate this risk, fees will be established for the services, and the private sector will be involved in providing services.

Success in strengthening the phytosanitary and food safety system will depend on the capacity of responsible State bodies to enforce the standards necessary for proper functioning of these areas. The project calls for activities that strengthen their understanding of the importance of compliance with these rules, and their impact on public health and on domestic and international markets.

There is a risk that the water users' associations that are to benefit from the program will not be able to manage the systems properly, and this could lead to deterioration of the infrastructure rehabilitated under the project. To mitigate this risk, the associations will receive technical assistance and training in irrigated farming and in operation and maintenance of the systems. As well, the agreement to be signed by the Ministry of Agriculture with each association, for conducting the rehabilitation work and transferring administration to the association, will include a provision committing each association to charge fees and set quotas that will cover the cost of maintaining the systems, and will include a clause releasing the government of any obligation for further investment in rehabilitation after the hand-over.

The principal risk to the technology subcomponent is the possibility that beneficiaries will fail to respond, because of the uncertainty of the market for their services, reflecting the traditional approach whereby technology services were offered free of charge by the government. The design of the system, which is based on market demand, will mitigate this risk.

Special contractual clauses:

- (a) The first disbursement will be subject to the following conditions, which must be met to the Bank's satisfaction: (i) evidence that the Operating Regulations have been prepared in accordance with the terms and conditions agreed on with the Bank, and that they are in force (paragraph 3.4); (ii) hiring of the Project Coordination Office director, in accordance with the terms of reference agreed with the Bank (paragraph 3.1); and (iii) creation of the Technical Execution Units within the Ministry of Agriculture (paragraph 3.3).
- (b) In addition to the conditions contained in paragraph (a) above, the first disbursement for the establishment of and support for

the SINALIT (subcomponent (a) of Component III) will be conditional on the presentation, to the Bank's satisfaction, of the findings of the study on the long-term institutional and financial sustainability of the SINALIT (paragraph 2.31).

- (c) In addition to the conditions contained in the preceding paragraphs (a) and (b), the first disbursement of resources for the competition fund for technology generation and transfer (subcomponent b) will be conditional on identifying—to the Bank's satisfaction and as a result of the establishment of the SINALIT—priorities by production heading, using a methodology agreed on with the Bank (paragraph 2.28).

Recognition of expenses and advance of resources:

Notwithstanding the provisions of the previous paragraph, after the loan contract comes into force, and once the conditions precedent to the first disbursement have been met, as stipulated in Article 4.01 of the General Conditions, the Bank may disburse up to the equivalent of US\$200,000 so that the Ministry of Agriculture can begin the activities needed to comply with the special contractual conditions (paragraph 3.24).

The Bank may recognize as a charge to the local counterpart contribution amounts expended by the Ministry of Agriculture since 1 January 2001, up to the equivalent of US\$1 million, for installation of the information centers and reconstruction of irrigation infrastructure, provided it has followed procurement procedures substantially similar to those of the Bank (paragraph 3.23).

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity-enhancing project, as described in the key objectives for Bank activity contained in the report on the Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

None

Procurement:

Goods and services will be procured in accordance with Bank policies. International competitive bidding will be followed for the procurement of goods for the equivalent of US\$250,000 or more, and for contracting works where the amount is US\$1.5 million or more. In the case of consulting services, contracts for amounts exceeding the equivalent of US\$200,000 will be submitted to international competition. Procurement transactions for less than these amounts will be subject to domestic legislation, as long as this is consistent with applicable Bank principles (paragraph 3.25).